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INFO OCT-01 ISO-00 SSO-00 /026 R

DRAFTED BY EB/ORF/FSE:DFHART:MW

APPROVED BY E:WDROGERS

EB/ORF/FSE - LRRAICHT

EUR - RVINE

S/S - LRDDY

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TO AMEMBASSY LONDON IMMEDIATE

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TAGS:ENRG

SUBJECT: OPEC PRICE DECISION

1. ON SATURDAY, NOVEMBER 13, UNDER SECRETARY ROGERS CALLED IN THE BRITISH (MINISTER BRIDGES), FRENCH (MINISTER-COUNSELOR BOYER), AND GERMANS (MINISTER MATTHIAS) TO PRESENT LETTERS FROM SECRETARY KISSINGER TO THE FOREIGN MINISTERS PROPOSING CONSULTATIONS ON POSSIBLE COMMON ELEMENTS OF APPROACHES TO THE OIL PRODUCERS.

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2. FOLLOWING IS TEXT OF LETTERS. BEGIN TEXT:

DEAR MR. MINISTER:

AS YOU KNOW, THE ORGANIZATION OF PETROLEUM

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EXPORTING COUNTRIES WILL MEET IN DECEMBER TO DECIDE

ON THE PRICE THEY WILL CHARGE FOR THEIR OIL IN 1977. THIS DECISION WILL HAVE MAJOR IMPLICATIONS FOR THE WORLD ECONOMY AND THE ECONOMIC WELL-BEING OF INDIVIDUAL OIL IMPORTING COUNTRIES.

IN THE CASE OF THE UNITED STATES, WE ESTIMATE THAT FOR EACH FIVE PERCENT INCREASE IN OIL PRICES, OUR PAYMENTS FOR IMPORTED OIL WOULD INCREASE BY \$1.7 BILLION. A NEW PRICE INCREASE WOULD ALSO SLOW THE RATE OF GROWTH OF US GNP, RAISE UNEMPLOYMENT, AND ACCELERATE INFLATION.

A PRICE INCREASE COULD BE EVEN MORE SERIOUS FOR SOME INDUSTRIAL COUNTRIES WHO ARE ALREADY IN ECONOMIC DIFFICULTY AND WHO ARE MORE DEPENDENT ON IMPORTED OIL. THE GENERAL IMPACT ON ECONOMIC CONFIDENCE IS INCALCULABLE BUT COULD BE PARTICULARLY SIGNIFICANT AT THIS DELICATE POINT IN A RELATIVELY WEAK GENERAL RECOVERY.

A PRICE INCREASE WOULD HAVE TRAGIC CONSEQUENCES FOR THE NON-OIL EXPORTING DEVELOPING COUNTRIES. EACH FIVE PERCENT PRICE INCREASE WOULD RAISE THEIR DIRECT COSTS FOR IMPORTED OIL BY MORE THAN \$600 MILLION ABOVE THE 1976 LEVEL OF ALMOST \$13 BILLION, COMPARED TO \$3 BILLION IN 1973. THE INDIRECT COSTS RESULTING FROM HIGHER PRICES FOR THEIR NON-OIL IMPORTS AND THE SHRINKAGE OF THEIR EXPORT MARKETS IN INDUSTRIALIZED COUNTRIES WOULD RAISE THE TOTAL IMPACT ON THESE COUNTRIES TO OVER \$1 BILLION.

THE IMPACT ON THE INTERNATIONAL FINANCIAL SYSTEM IS PARTICULARLY ALARMING. COUNTRIES FACING SERIOUS BALANCE OF PAYMENTS PROBLEMS WOULD FIND IT MORE DIFFICULT TO REGAIN EQUILIBRIUM. THE PRIVATE FINANCIAL SYSTEM, ALREADY HEAVILY COMMITTED AS A RESULT OF THE DEFICITS CAUSED BY THE 1973-74 OIL PRICE INCREASES, WOULD BE FURTHER STRAINED.

GIVEN THIS OUTLOOK, I BELIEVE IT IS INCUMBENT
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ON THE UNITED STATES AND OTHER MAJOR INDUSTRIALIZED COUNTRIES TO ENSURE THAT THE OPEC NATIONS ARE FULLY AWARE OF THE POSSIBLE CONSEQUENCES TO OTHERS AND TO THEMSELVES OF A DECISION TO RAISE AGAIN THE PRICE OF OIL. WE SHOULD NOT REGARD A PRICE INCREASE AS INEVITABLE. I WOULD LIKE TO SUGGEST, THEREFORE, THAT OUR GOVERNMENTS BEGIN CONSULTATIONS ON AN URGENT

BASIS ON POSSIBLE STEPS WE MIGHT TAKE TO AVERT SUCH AN INCREASE.

IN PARTICULAR, WE WOULD LIKE TO CONSULT ON POSSIBLE COMMON ELEMENTS OF BILATERAL APPROACHES TO KEY OPEC COUNTRIES. WE CONSIDER SAUDI ARABIA AND IRAN TO BE PARTICULARLY IMPORTANT IN THE EVENTUAL OPEC DECISION. IN OUR OWN APPROACHES TO BOTH COUNTRIES, WE ARE STRESSING THE SERIOUS ECONOMIC IMPACT OF ANY PRICE INCREASE AT THIS TIME, GIVEN THE OBVIOUS FRAGILITY OF THE ECONOMIC RECOVERY AND THE PARTICULARLY SERIOUS ECONOMIC DIFFICULTIES OF CERTAIN MAJOR INDUSTRIALIZED COUNTRIES AND MANY DEVELOPING COUNTRIES. WE WILL ALSO REFUTE STRONGLY THE CLAIM THAT AN OIL PRICE INCREASE IS SOMEHOW ECONOMICALLY JUSTIFIED BY INCREASES IN THE COSTS OF OUR EXPORTS TO THE OIL PRODUCERS. IN FACT, SINCE SEPTEMBER 1975, WHEN THE OIL PRICE WAS RAISED BY TEN PERCENT, THE PRICES OF THE EXPORTS TO OPEC OF THE SEVEN MAJOR INDUSTRIALIZED COUNTRIES HAVE RISEN ONLY FOUR PERCENT.

IN ADDITION, I BELIEVE THAT WE SHOULD EXPLORE AMONG OURSELVES OTHER POSSIBLE COMMON ELEMENTS OF APPROACHES TO IRAN, SAUDI ARABIA, AND PERHAPS ADDITIONAL OPEC MEMBERS. IN THE CASE OF SAUDI ARABIA, FOR EXAMPLE, WE SHOULD EXAMINE JOINTLY: THE LEGITIMACY OF THE APPARENTLY GROWING SAUDI CONCERN OVER THEIR SURPLUS ASSETS; THE POSSIBLE RELATIONSHIP BETWEEN THIS ISSUE AND SAUDI DECISIONS ON PRODUCTION LEVELS; AND WHAT, IF ANYTHING, WE MIGHT BE ABLE TO DO TO RESPOND TO SAUDI CONCERNS.

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IF YOU AGREE, I SUGGEST THAT WE BEGIN PRIVATE CONSULTATIONS ON THESE AND RELATED MATTERS WITHIN THE NEXT SEVERAL DAYS. AS SOON AS I RECEIVE YOUR RESPONSE, I WILL DESIGNATE SENIOR US OFFICIALS TO INITIATE DISCUSSIONS ON AN URGENT BASIS WITH YOUR REPRESENTATIVES.

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I AM WRITING ALSO TO THE FOREIGN MINISTERS OF (THE UNITED KINGDOM, FRANCE, AND THE FEDERAL REPUBLIC OF GERMANY) AS I BELIEVE WE SHOULD CONSULT AND COORDINATE JOINTLY WITH THEM ON THIS IMPORTANT SUBJECT.

WARM REGARDS, HENRY A. KISSINGER. END TEXT. KISSINGER

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, POLICIES, DIPLOMATIC COMMUNICATIONS, VENDORS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 13 NOV 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: BoyleJA
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE280066
Document Source: CORE
Document Unique ID: 00
Drafter: DFHART:MW
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760425-0190
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761150/aaaabrbu.tel
Line Count: 168
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS, STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS, STADIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: BoyleJA
Review Comment: n/a
Review Content Flags:
Review Date: 27 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 APR 2004 by hartledg>; APPROVED <18 AUG 2004 by BoyleJA>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OPEC PRICE DECISION
TAGS: ENRG, PSDC, US, OPEC, (KISSINGER, HENRY A)
To: LONDON BONN PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006